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## For R.I. budget, some hopeful signs

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PROVIDENCE — Rhode Island's budget deficits may be shrinking.

The possibility of a reversal of the Ocean State's economic fortune began to surface Thursday morning in the State House basement, where a collection of top budget officials learned that the end of ballooning unemployment, growing foreclosure rates and weak consumer confidence is nearly upon them.

"In spite of the flood, [the state] is roughly on the verge of recovery," said Andres Carbacho-Burgos, an economist for Moody's Economy.com. "So, cross your fingers, it looks like the worst is over for Rhode Island."

Last month's flooding was responsible for the loss of as many as 3,500 jobs, but those losses were offset, at least in part, by an increase in new construction hiring to repair the damage, Carbacho-Burgos said, referring to the situation as "only a temporary setback" for the state's economy.

Indeed, most flood-related job losses likely won't affect the Ocean State's unemployment rate, because many businesses are expected to reopen by July, according to Robert J. Langlais, assistant director of labor market information for the state Department of Labor and Training.

"The trends in our unemployment claims data are also promising," he said, noting that new claims through most of April are down nearly 23 percent from the same period last year.

The testimony, delivered as part of the annual May Revenue Estimating Conference, will help guide state budget officials who must decide early next week whether to change projections that now set budget shortfalls at \$220 million and \$427 million for this year and the next, respectively. The magnitude of the deficits has a direct impact on looming budget cuts that threaten pension benefits for tens of thousands of state workers and teachers, state aid for cash-strapped local communities and social-service programs that serve more than 100,000 moderate- and low-income Rhode Islanders.

House and Senate leaders are expected to wait until deficit numbers are finalized before resolving a recent breakdown in budget negotiations.

On its own, Thursday morning's testimony likely wasn't enough to persuade wary budget officials to improve deficit projections. Economists have consistently cited signs of recovery in recent months. But the state Department of Revenue last month published updated revenue collections — the taxes, lottery receipts and fees that pay for government programs — that were \$45.3 million higher than expected for the first nine months of the fiscal year.

A subsequent report, issued Thursday afternoon, shows revenues through April lagging expectations by \$14 million, a reversal that may be misleading, because of a flood-related tax-filing extension that gives filers until May 11 to pay income taxes.

When asked if the budget deficits might be shrinking, Senate fiscal adviser Peter Marino said it was possible, but that final numbers wouldn't be available until Monday, the final day of the conference. Still, "it's the best news we've heard in a while," he said of the economist's testimony.

Rhode Island Poverty Institute fiscal policy analyst Russell Dannecker, Marino's predecessor, was slightly more optimistic.

"I think that's a real possibility," he said of the likelihood that deficit projections might shrink.

Despite some cause for optimism, the Rhode Island economy will continue to struggle in the near future. If the deficits improve, it will simply be because the economy isn't struggling as much as predicted.

Burgos said that Rhode Island's unemployment rate, 12.6 percent for March, will peak at 13.3 percent before the end of June.

"Of course, this peak rate will be far higher than the U.S. and New England," he said, noting that Rhode Island would "lag behind in job creation for at least the next five or six years."

Indeed, the Ocean State's March unemployment rate was the third-highest in the nation — tied with California — and behind only Michigan and Nevada. It has exceeded the national average since July 2005, according to Langlais, who disagreed with Carbacho-Burgos' assessment that Rhode Island's rate hadn't yet peaked.

In various sectors, Langlais produced data showing that losses had stabilized.

The retail and trade sector, for example, has produced 900 new jobs since January. The number of manufacturing jobs has been steady since September 2009. Construction employment over the last six months has been "relatively stable." And financial activities (which include real estate) have produced 100 new jobs since last September.

"I would be surprised if it went past 13 [percent]," Langlais said of the state's unemployment. "But that's just a guess on my part."

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